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FISCAL IMPACT STATEMENT

LS 7326

BILL NUMBER: HB 1003

NOTE PREPARED: Feb 19, 2013

BILL AMENDED: Feb 18, 2013

SUBJECT: School Scholarships.

FIRST AUTHOR: Rep. Behning

FIRST SPONSOR:

BILL STATUS: CR Adopted - 1st House

FUNDS AFFECTED: X **GENERAL**
DEDICATED
FEDERAL

IMPACT: State

Summary of Legislation: (Amended) *School Scholarship Income Tax Credit*: This bill provides that a taxpayer may carry forward a School Scholarship Income Tax Credit for a taxable year that begins after December 31, 2012. It makes changes to the cap applied to the tax credit.

Preschool - The bill provides a Preschool Education Scholarship Tax Credit equal to 50% of a taxpayer's contribution to a preschool scholarship granting organization. The bill requires the Division of Family Resources (Division) to administer a Preschool Education Scholarship Program.

Choice Scholarship - The bill specifies eligibility standards for Choice Scholarships. It specifies Choice Scholarship amounts. The bill also increases the Choice Scholarship cap for students enrolled in grades 1 through 8. It makes various administrative changes to the Choice Scholarship Program. The bill provides that in calculating the amount of a Choice Scholarship, in addition to a certain percent of state tuition support, the scholarship would include any applicable amount that a school corporation (in which the student has legal settlement) would receive for the student as part of a special education grant.

The bill removes a provision that allows the Department to make only a Partial Choice Scholarship Grant.

The bill makes conforming amendments.

Effective Date: January 1, 2013 (retroactive); July 1, 2013.

Explanation of State Expenditures: (Revised) *Choice Scholarship*: The bill would increase: (1) the pool of students eligible for a Choice Scholarship; and (2) the maximum Choice Scholarship for 1st through 8th grade

students.

The bill expands the pool of students who would be eligible for Choice Scholarships by adding:

1. Children with disabilities who require special education with household income under 200% of the amount needed to qualify for free or reduced lunch;
2. Children in foster care with household income under 200% of the amount needed to qualify for free or reduced lunch;
3. Students enrolled in a public school within or outside Indiana with household income under 200% of the amount needed to qualify for free or reduced lunch;
4. Children with a parent who has received an honorable discharge from the armed forces or who is on active duty in the armed forces;
5. Siblings of children who have received a Choice Scholarship or school scholarship from a scholarship granting organization; and
6. Children who are enrolling in kindergarten with household income not exceeding the amount necessary to qualify for the free or reduced lunch.

The bill also provides that a child who initially meets the income eligibility requirements for a Choice Scholarship and whose household income subsequently increases remains eligible for the scholarship, if the child's household income does not exceed 200% of the amount necessary to qualify for the free or reduced price lunch program. The increase in eligible children due to these changes is indeterminable, but is likely to be significant.

The bill increases the maximum Choice Scholarship for 1st through 8th grade students from \$4,500 to \$5,000 for FY 2014 and to \$5,500 for FY 2015. For FY 2013, approximately 3,854 of the 9,135 choice scholarships were funded at the \$4,500 level. The scholarships with a dollar amount greater than the \$4,500 maximum averaged about \$5,667. For FY 2013, the \$500 increase in the maximum scholarship for 1st through 8th grade Choice Scholarship students would have cost \$1.9 M, with a \$1,000 increase costing \$3.8 M. The impact could grow as more students use the Choice Scholarship Program.

The bill also provides that the scholarship includes any tuition support special education grants the student would have received if they had enrolled in their resident school corporation. The current special education grants are \$8,350 for severe disabilities, \$2,265 for moderate disabilities, and \$533 for communication disabilities. It is unknown how many students with Choice Scholarships have a disability.

The maximum number of scholarships for the 2011-12 school year was 7,500, and the maximum number of scholarships for the 2012-13 school year is 15,000. There is no limit on the number of Choice Scholarships for FY 2014. The following table has the number of scholarships and value of those scholarships for FY 2012 and FY 2013.

Fiscal Year	Number of Scholarships	Value of Scholarships	Average Scholarship
2012	3,911	\$ 15.6 M	\$3,988.75
2013	9,135	\$37.3 M	\$4,083.10

The time line for the Department to approve a Choice Scholarship should have minor fiscal impact on the Department.

Preschool Scholarships - Division of Family Resources (DFR): The bill requires the DFR to certify nonprofit

preschool scholarship granting organizations (PSGOs) in the state and make information on these programs publicly available. The bill specifies the requirements to be met by a PSGO to receive and maintain certification by the DFR. Under the bill, only preschools that are certified as level 3 or 4 Paths to Quality providers can be eligible to receive scholarships from a PSGO. Currently, the DFR certifies and inspects child care providers and preschools that request certification as level 3 and 4 Paths to Quality providers and maintains information on its website regarding these providers. DFR should be able to accomplish the certification and other administrative responsibilities of the bill with existing staff and resource levels.

Eligible Children: Under the bill, a child would be eligible for a preschool scholarship from a preschool scholarship granting organization if the child: (1) is three years old or four years old; (2) is an Indiana resident; (3) is a member of a household with an annual income of not more than 200% of the income required for the individual to qualify for the federal free and reduced price lunch program; and (4) is enrolling in an eligible preschool for the first time or received a scholarship from a preschool scholarship granting organization in a previous year.

It is estimated that there are 114,511 three-year-old and four-year-old children in the state that are members of households with an annual income of not more than 200% of the income required to qualify for the federal free and reduced price lunch program. This is based on data from the Kids Count Data Center and a distribution of children under the age of 18 by federal poverty level. Out of this group, the following three groups of children already participate in federally funded preschool programs:

- (1) 9,515 children receive CCDF vouchers.
- (2) 3,228 children are served by Title I preschools.
- (3) 15,530 children are served by Head Start programs.

On a statewide basis, this would leave a total of 86,238 three-year-old and four-year-old children who could meet the eligibility criteria for a scholarship from a preschool scholarship granting organization.

Department of State Revenue (DOR): The DOR would incur some administrative expenses relating to the revision of tax forms, instructions, and computer programs to reflect the changes relating to the nonpublic school expense deduction and the new tax credits proposed in this bill. The DOR's current level of resources should be sufficient to implement these changes.

Explanation of State Revenues: (Revised) The estimated revenue loss from the tax provision changes in this bill are summarized in the table below.

Tax Provision	FY 2015
Allowing Carry Forward of School Scholarship Tax Credit	Indeterminable Revenue Loss
Preschool Education Scholarship Tax Credit	(\$0.5 M - \$1.0 M)
Total	(\$0.5 M - \$1.0 M)

(Revised) *Carry-forward of School Scholarship Tax Credit:* The bill would allow tax credits for contributions to school scholarship granting organizations beginning in tax year 2013 to be carried forward for up to nine years. This change could potentially increase the long-run revenue loss from the tax credit by allowing taxpayers who could not otherwise exhaust the credit in one year to carry forward unused credit amounts.

Current law provides a nonrefundable tax credit to individuals and corporations that make contributions to a scholarship granting organization. The credit is equal to 50% of the amount of the charitable contribution, and may be taken against the Individual and Corporate AGI Tax, the Financial Institutions Tax, and the Insurance Premiums Tax. Total credits may not exceed \$5.0 M in any fiscal year, and the tax credit may not be carried back or carried forward. In tax year 2010, about \$183,000 in school scholarship credits was claimed. However, through February 15, 2013, \$2.2 M in credits has been approved for FY 2013.

(Revised) *Preschool Education Scholarship Tax Credit*: This bill provides a nonrefundable tax credit to individuals and corporations that make contributions to preschool scholarship granting organizations after July 1, 2013. The amount of credits that could potentially be claimed beginning in tax year 2013 will depend on how scholarship granting organizations are established and certified by DFR. The bill provides that the total tax credits claimed for Preschool Education Scholarship Tax Credit and School Scholarship Tax Credit may not exceed a combined \$10 M in a state fiscal year. Assuming that the response to this credit is similar to the school scholarship tax credit, the fiscal impact in FY 2014 would likely be minimal. The impact in FY 2015 is estimated to total \$500,000 to \$1 M. The impact is estimated to grow in the years thereafter. It is possible that the fiscal impact from the School Scholarship Tax Credit and Preschool Education Scholarship Tax Credit could reach the combined \$10 M cap over the longer term.

This credit is equal to 50% of the amount of the charitable contribution to the preschool scholarship granting organization and may be taken against the Individual and Corporate AGI Tax, the Financial Institutions Tax, and the Insurance Premiums Tax. The tax credit may not be carried back or carried forward.

(Revised) *Increasing Maximum School Scholarship Tax Credit*: The bill provides that the total tax credits claimed for School Scholarship Tax Credit and Preschool Education Scholarship Tax Credit may not exceed a combined \$10 M in a state fiscal year. Under current law, the School Scholarship Tax Credit is capped at \$5 M in a state fiscal year. This provision could have an impact in long term if taxpayers claiming the School Scholarship Tax Credit would claim more than \$5 M in a state fiscal year.

Scholarship Granting Organizations - The bill would increase the number of students that would qualify for a scholarship from an SGO. All students in private schools with income less than 200% of the amount required for the student to qualify for the free or reduced lunch program could apply to an SGO for a scholarship. The bill does not increase state expenditures but would increase the demand for SGO scholarships and might affect the amount of School Scholarship Tax Credit claimed. The impact is unknown.

There are currently five SGOs that are approved to grant scholarships. There were about 66,363 students enrolled in accredited nonpublic schools during the 2012 school year.

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: Department of State Revenue; Division of Family Resources, FSSA.

Local Agencies Affected: Schools

Information Sources: OFMA Income Tax Database.

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